

POLICY PARADIGMS, SOCIAL  
LEARNING AND THE STATE:  
THE CASE OF ECONOMIC  
POLICY-MAKING IN BRITAIN

Peter A. Hall

Estudio/Working Paper 1990/4  
June 1990

Peter A. Hall is Professor of Political Science at the Center of European Studies, Harvard University. During 1989 he was professor at the *Centro de Estudios Avanzados en Ciencias Sociales*.

The study of comparative politics has been deeply influenced over the past decade by theories of the state. Initially developed by neo-marxists in response to the persistence of capitalism, these theories now take a variety of forms.<sup>1</sup> Their central contention is that the state itself, broadly understood as the executive, legislative and judicial apparatus of the nation, has an important impact of its own on the nature of public policy and considerable independence from organized social interests or the electoral coalitions that might otherwise be said to drive policy. In the words of one state theorist, policy should not be seen as "... a vector diagram in which a series of pressures are brought to bear on the state, which then moves in the direction it is pushed by the strongest societal forces".<sup>2</sup> In this respect, theories of the state offer a useful, if occasionally overstated, corrective to pluralist emphases on the societal sources of policy.<sup>3</sup>

However, all research programs leave some question unanswered; and this one poses particularly difficult ones. What motivates the actions of the state, if it is not the factors previously identified by pluralist analysis? How are we to conceive of the policy process, if not as a response to societal pressure? In this regard, the negative force of the state theorists' case against more traditional lines of thought has not been matched by their positive attempts to construct an alternative conception of policy-making. To suggest that policy-makers respond instead to the 'national interest' leaves us wondering how that national interest comes to be defined.<sup>4</sup> Similarly, to argue that policy reflects a 'parallelogram of preferences' among public officials themselves or the outcome of a 'bureaucratic politics' in which 'where you stand depends on where you sit' imports a rather underspecified model of pluralism back into the state itself.<sup>5</sup> Even the argument that 'policy legacies' determine the course of subsequent policy raises questions about why some legacies are more influential than others.<sup>6</sup> The recent work that focuses our attention on the state has been of great value, but the state at which we are now looking largely remains a black box.<sup>7</sup>

In the face of this dilemma, theorists of the state have been casting about for an alternative conception of the policy process with which to complete their account of policy. Out of these endeavors, one concept in particular has begun to appear with increasing frequency. This is the concept of policy-making as social learning. The

notion of politics as learning has origins in work on cybernetics and organization theory; and psychologically-oriented versions of the approach have been applied with some success to the process of foreign policy-making.<sup>8</sup> However, the formulation that has had the most influence over theories of the state is the one presented in Hugh Hecló's distinguished study of social policy-making in Britain and Sweden. In Hecló's words: "Politics finds its sources not only in power but also in uncertainty-men collectively wondering what to do...Governments not only 'power'...they also puzzle. Policy-making is a form of collective puzzlement on society's behalf...Much political interaction has constituted a process of social learning expressed through policy."<sup>9</sup>

There is a profound insight here, and it has been taken up with enthusiasm by theorists of the state. In an influential review essay, Theda Skocpol observes that Hecló's work "suggests how to locate and analyze autonomous state contributions to policy-making, even within constitutional polities nominally directed by legislatures and electoral parties", and Paul Sacks argues that "the 'politics as learning' approach implies that elements within the state, acting, presumably, in pursuit of the national interest, decide what to do without serious opposition from external actors", thereby confirming a central tenet of state theory.<sup>10</sup> The notion of social learning is on the verge of becoming a key element in contemporary theories of the state.

However, there are two major problems with the concept of social learning (or policy learning in the terms I will use) as hitherto employed by theorists of the state. First, it has been presented in only the sketchiest of terms. Unlike the psychologically-oriented versions of learning theory that have been explored more fully in studies of foreign policy or the procedurally-oriented versions presented by organization theorists, the concept of social learning presented by Hecló and taken up by theorists of the state emphasizes the role of ideas in policy-making. But those who use the concept have yet to develop an overarching image of the way in which ideas fit into the policy process or a clear conception of how those ideas might change.

Second, it is not at all clear that the process of social learning actually accords as completely as many think with the notion of an autonomous state. Social learning has generally been treated as a dimension of policy-making that confirms the autonomy of

the state, but it may well be that policy learning is intimately affected by societal developments rather than a process that takes place largely inside the state itself.

This point speaks to a central division within current analyses of the state. Recent theorists of the state can be divided into two types. On one side are a set of analyses that might be described as state-centric in that they emphasize the autonomy of the state from societal pressure. These works suggest that policy is generally made by public officials operating with considerable independence from organizations like interest groups or political parties that transmit societal demands.<sup>11</sup> On the other side are a set of analyses that might be called state-structural. They, too, emphasize the impact on policy of the state's structure and its actions, but they are less inclined to insist on the autonomy of the state *vis-à-vis* societal pressure. Instead, they accord interest groups, political parties, and other actors outside the state an important role in the policy process, noting rather that the structure and past actions of the state often affect the nature or force of the demands that these actors articulate.<sup>12</sup> If policy learning is a process that takes place largely inside the state itself, it will accord well with the arguments of state-centric theorists. However, to the extent that policy learning involves such broader participation and conflict within the political system as a whole, it will be more consonant with the state structuralist approach.

The object of this article is to examine the process of policy learning more closely with a view to resolving some of these problems. At the outset, I take up a number of questions about how the learning process proceeds with a view to specifying more completely the overarching role that ideas play in the policy process. How should we understand the relationship between ideas and policy-making? How do the ideas that guide an institution like the state change course? Is the overall learning process relatively continuous over time and incremental, as organization theory might lead us to expect or is it more discontinuous, marked by upheaval and the kind of 'punctuated equilibrium' that some have suggested applies more generally to political change? Then I explore a number of issues associated with the relationship between policy learning and the autonomy of the state. Are bureaucrats the principal actors in policy learning or do politicians and societal organizations also play a role? Does a closer

examination of the process of policy learning confirm the autonomy of the state, and, if so, in what measure?

The article examines these issues in the context of a specific empirical case, namely that of macroeconomic policy-making in Britain between 1970 and 1989. A broad concept like that of policy learning deserves to be explored in many contexts; no single case can fully resolve these issues. However, the case of macroeconomic policy-making in Britain is an ideal one against which to test the prevailing conceptions of policy learning and their implications for state theory. On the one hand, economic policy-making is a knowledge-intensive process, long associated with concepts of learning. As Hecló observes, “[n]owhere is the importance of such learning and alteration of perspective more clearly demonstrated than in the economic doctrines prevalent in any given period.”<sup>14</sup> On the other hand, economic policy-making in Britain, in particular, figures heavily in the most prominent attempts by state theorists to apply the concept of learning.<sup>15</sup> This is also an excellent case against which to test state-centric arguments that the learning process is dominated by officials and highly-placed experts, since the power of official experts should be at its maximum in a highly technical field like that of macroeconomic policy-making and in a nation like Britain, which has an unusually hierarchical and closed bureaucracy.

## THE PROCESS OF POLICY LEARNING

We can begin from what might be termed the prevailing model of policy learning as utilized by contemporary theorists of the state. It is heavily based on Hecló’s work but the state theorists take his cautious formulations somewhat farther. The image of policy learning that they present has three central features.

First, they suggest that one of the principal factors affecting policy at time-1 is policy at time-0. In Sacks’ words: “The most important influence in this learning is previous policy itself.”<sup>16</sup> Policy responds less directly to social and economic conditions *per se* than it does to the consequences of past policy. In Weir and Skocpol’s terms, the interests and ideals that policy-makers pursue at any moment in time are shaped by “policy legacies” or “meaningful reactions to previous policies”.<sup>17</sup>

Second, the key agents pushing forward the learning process are the experts in a given field of policy, either working for the state or advising it from privileged positions at the interface between the bureaucracy and the intellectual enclaves of society. Heclo observes that “[f]orced to choose one group among all the separate political factors as most consistently important...the bureaucracies of Britain and Sweden loom predominant in the policies studied”.<sup>18</sup> On the whole, this model tends to downgrade the role of politicians in policy learning and attribute particular importance to the official experts who specialize in specific fields of policy.

Finally, this view of policy learning emphasizes the capacity of states to act autonomously from societal pressure. Heclo rejects the view that outside factors, such as socioeconomic development, elections, political parties or organized interests, play a primary role in the development of social policy and concludes, albeit cautiously, that: “If one were forced to hold the policy process static and choose between an essentially pluralistic or elitist interpretation, then our tentative conclusions...would suggest the greater interpretive power of the latter”. Sacks and others go even farther to argue that accounts of policy learning “reveal the substantial autonomy of the state from societal pressures in its formulation of policy goals.”<sup>19</sup>

It should be apparent that this is a relatively schematic model that needs to be fleshed out in several respects. To begin with, the concept of policy learning itself should be defined more clearly. Learning is conventionally said to occur when individuals assimilate new information, including that based on past experience, and apply it to their subsequent actions. Therefore, we can define policy learning as a deliberate attempt to adjust the goals or techniques of policy in the light of past experience and new information, learning is indicated when policy changes as the result of such a process.”<sup>20</sup>

In addition, we should allow for the possibility that the learning process may take different forms, depending on the kind of policy change that is involved. That is to say the concept of policy learning should be disaggregated. In order to do so, we can think of policy-making as a process that involves three central variables: the overarching goals used to guide policy in a particular field, the techniques or policy instruments used to

attain those goals, and the precise settings of these instruments. For instance, if the goal of policy is to alleviate the financial problems of the elderly, the chosen instrument might be an old-age pension, and its setting would be the level at which benefits were set. We want to distinguish the learning process associated with a simple change in the level of benefits from that associated with potentially more radical transformations in the basic instruments of policy or its overarching goals.

On this basis, we can identify three forms of policy learning according to the kind of policy changes they involve; and the case of British macroeconomic policy-making over the 1970-89 period provides us with several examples of each.

First, the levels (or settings) of the basic instruments of macroeconomic policy, such as the minimum lending rate or the fiscal stance, were altered at frequent intervals during the 1970-89 period, even when the overall goals and instruments of policy remained the same. Most of the adjustments made in the annual budget took this form: the settings of the government's policy instruments were modified in the light of past experience with the previous settings and projections for the future performance of the economy. We can call this process whereby instrument settings are changed in the light of experience and new knowledge, while the overall goals and instruments of policy remains the same, a process of first-order learning.

Second, there were several instances in the 1970-88 period when the hierarchy of goals behind British macroeconomic policy remained largely the same, but the basic techniques used to attain them were altered, as a result of dissatisfaction with past experience. These episodes included: the introduction of a new system of monetary control in 1971, the development of a new system of 'cash limits' for public spending control in 1976, and the movement away from strict targets for monetary growth in 1981-83. Changes of this sort, when the instruments of policy and their settings are in response to past experience while the goals of policy remain the same might be said to reflect a process of second-order learning.

Finally, the British experience of 1970-89 was also marked by a radical shift from Keynesian to monetarist modes of macroeconomic regulation, which entailed simultaneous changes in all three components of policy: the instrument settings, the

instruments themselves, and the hierarchy of goals behind policy. Such wholesale changes in policy occur relatively rarely, but when they do occur as a result of reflection on past experience, we can describe them as instances of third-order learning.<sup>21</sup>

In order to understand how policy learning takes place, we also need a more complete account of the role that ideas play in the policy process. After all, changes in ideas are central to policy learning, even if the role of ideas in politics is a somewhat neglected topic in contemporary political science. To construct a more complete conceptualization of the role of ideas in policy-making, we can draw on the particularly fruitful notion of Charles Anderson that “the deliberation of public policy takes place within a realm of discourse...policies are made within some system of ideas and standards which is comprehensible and plausible to the actors involved.”<sup>22</sup> In other words, policymakers customarily work within a framework of ideas and standards that specifies not only the goals of policy and the kind of instruments that can be used to attain them but also the very nature of the problems they are meant to be addressing. Like a *Gestalt*, this framework is embedded in the very terminology through which policy-makers communicate about their work, and it is influential precisely because so much of it is taken for granted and unamenable to scrutiny as a whole. We can call this interpretive framework a policy paradigm.

Macroeconomic policy-making in Britain has clearly revolved around this sort of policy paradigm. For most of the post-war period, British policy was based on a highly-coherent system of ideas associated with John Maynard Keynes. Once adapted to the organization of the British financial system, Keynesian ideas were institutionalized into the procedures of the British Treasury and formalized as the ‘neo-classical synthesis’ in many standard texts. They specified what the economic world was like, how it was to be observed, which goals were attainable through policy, and what instruments should be used to attain them. They became the prism through which policy-makers saw the economy as well as their own role within it.<sup>23</sup>

These policy paradigms are rather like the scientific paradigms that Thomas Kuhn has identified; and we can take advantage of this analogue to develop some hypotheses about how the policy learning process might proceed.<sup>24</sup> In the first instance, such an

approach allows us to locate the different kinds of policy learning relative to one another. First- and second-order learning, on the one hand, can be seen as cases of ‘normal policy-making’, namely of a process that adjust policy without challenging the overall terms of a given policy paradigm. Third-order learning, on the other hand, reflects a very different process of ‘paradigm shift’, marked by more radical change in the overarching terms of policy discourse. If the former accounts for the broad continuities we usually find in patterns of policy, the latter is likely to reflect a much more disjunctive process associated with the periodic discontinuities found in many fields of policy; and one striking implication of this view would be that first- and second-order learning do not automatically lead to third-order learning. As in the case of scientific change, normal policy-making can proceed for some time without necessarily precipitating a paradigm shift. The latter is engendered quite differently.

The process of first-order learning is likely to display the features of incrementalism, satisficing, and routinized decision-making that we normally associate with the policy process.<sup>25</sup> Second-order learning and the development of new policy instruments may move one step beyond this in the direction of strategic action. But third-order learning is more problematic: the literature provides far less guidance for modelling this sort of process. Nevertheless, we can draw on the Kuhnian image of scientific progress to develop some hypotheses about how the process of paradigm change or third-order learning might proceed.

Such an account should begin from the observation that paradigms are by definition never fully commensurable in scientific or technical terms. Because each paradigm contains its own account of how the world facing policy-makers works and each of these accounts is different, it is often impossible for the advocates of different paradigms to agree on a common body of data against which a technical judgement in favor of one paradigm over another might be made.<sup>26</sup> Three important implications follow from this.

First, the process whereby one policy paradigm comes to replace another is likely to be more sociological than scientific. That is to say, although the changing views of experts may play a role, their views are likely to be controversial and the choice between paradigms can rarely be made on scientific grounds alone. The movement from one

paradigm to another will ultimately entail a set of judgements that are more political in tone; and the outcome will depend, not only on the arguments of competing factions, but on their positional advantages within the broader institutional framework, on the ancillary resources they can command in such conflicts, and on exogenous factors affecting the power of one set of actors to impose its paradigm over others.

Second, issues of authority are likely to be central to the process of paradigm change. Faced with conflicting opinions from the experts, politicians will have to decide whom to regard as authoritative, especially in matters of technical complexity; and, within the policy community itself, there will be a contest for ultimate authority with regard to the issues at hand. In other words, the movement from one paradigm to another is likely to be preceded by significant shifts in the locus of authority over policy.

Finally, instances of policy experimentation and policy failure are likely to play a key role in the movement from one paradigm to another. Like scientific paradigms, a policy paradigm can be threatened by the appearance of anomalies, namely by developments that are not fully comprehensible, even as puzzles, within the terms of the paradigm. As these accumulate, ad hoc attempts are generally made to stretch the terms of the paradigm to cover them; but this gradually undermines the intellectual coherence and precision of the original paradigm. Efforts to deal with such anomalies may also entail experiments to adjust the existing lines of policy but, if the paradigm is genuinely incapable of dealing with anomalous developments, these experiments can result in policy failures that will gradually undermine the authority of the existing paradigm and its advocates even further.

Therefore, the movement from one paradigm to another that characterizes third-order learning is likely to involve the accumulation of anomalies, experimentation with new forms of policy and policy failures that precipitate a shift in the locus of authority over policy and initiate a wider contest between competing paradigms. This contest may well spill beyond the boundaries of the state itself into the broader political arena. It will end only when the supporters of a new paradigm secure positions of authority over policy-making and are able to rearrange the organization and standard operating procedures of the policy process so as to institutionalize the new paradigm.

How well does this expanded image of policy learning fit the course of British macroeconomic policy-making in the 1970-89 period? And what are the implications of this case for contemporary theories of the state? To answer these questions, we need to explore empirical cases representative of each of the three types of policy learning. These are drawn from the process of macroeconomic policy-making in Britain since 1970; and, although space permits only a brief review of each case, we can concentrate on those features most relevant to the models of policy learning outlined above.<sup>27</sup>

#### FIRST-ORDER LEARNING

As noted above, first-order learning took place every year during this period, and often more than once a year, as policy-makers adjusted the budget judgement in response to the revealed consequences of past policy and new developments. The broad outlines of the process are well-known. It was analytical, in the sense that the settings of fiscal and monetary instruments were adjusted to attain a specified set of macroeconomic targets, but also highly routinized, in that the range of options canvassed in any year was generally restricted by the conventions of the reigning paradigm. For much of the period, such adjustments to policy can be predicted with a 'satisficing' model of decision-making.<sup>28</sup>

This first-order learning process corresponds quite closely to the image of policy learning current in state theory. Policy at time-1 was deliberately formulated and justified in terms of the outcomes of policy at time-0, as the annual Financial Statement and Budget reports indicate, and there is ample evidence that experts within the civil service played a dominant role in the process. They controlled both the advice going to the Chancellor and the forecasts on which that advice was based. The Prime Minister and Chancellor could push policy more in one direction than another, as Edward Heath did by pressing for all-out growth in 1972 or James Callaghan did by insisting on a lower-rate band for taxes in 1978; but they lacked the technical expertise to take the direction of macroeconomic management out of the hands of their officials, and other Ministers had virtually no influence over macroeconomic policy-making.

As theorists of the state would predict, the first-order learning process also seems to have been relatively insulated from the kind of pluralist pressures we often associate with the broader political system. A variety of groups made representations to the Chancellor before each budget, but these were largely discounted at the Treasury. The Confederation of British Industry secured minor concessions in return for a promise to police retail prices in 1971 and the Government made some alterations to policy in exchange for the Trades Union Congress's agreement to an incomes policy in 1975-76; but these must be balanced against the far more numerous occasions over this period when the demands of outside groups were ignored.<sup>30</sup>

## SECOND-ORDER LEARNING

At several junctures during 1970-89, British governments also deliberately altered the instruments of macroeconomic policy while maintaining the same policy goals. Changes of this sort are associated with second-order learning and, to explore its parameters, we can examine three representative cases, one drawn from each of the three administrations in office during the period.

The first case is that of Competition and Credit Control (CCC), the name given to a series of changes made to the system of monetary control beginning in 1971. There is an ample literature on this episode, and it can be reviewed briefly.<sup>31</sup> The British clearing banks had been arguing for some years that the existing system of quantitative controls on lending was hampering their ability to compete with foreign firms entering the British market, but the new scheme was initiated by senior officials at the Bank of England only after they, too, found that the existing system was becoming unworkable and had concluded, after a long series of studies, that the UK demand for money was stable enough to support a system of monetary control based primarily on interest rate changes. Lacking the expertise to examine the scheme fully, the Treasury gave it only a cursory review and then sold it to the Government as a way of encouraging competition in the banking system. When bank lending rose faster than expected in 1972-73, however, the Prime Minister balked at the interest rate increases proposed by the Bank, the money supply (M3) rose by 60 percent in 1972-73, and another system of

quantitative controls, known colloquially as the 'corset', was ultimately imposed in July, 1973. The experiment as a whole was something of a minor disaster.

The second case of second-order learning had a happier outcome but many of the same features as the first. This was the introduction of a new system for controlling public expenditure known as a 'cash limits' system because it replaced the traditional method of planning public expenditure in volume terms with a set of limits on departmental expenditure formulated in nominal pounds sterling. Once again, the impetus for change came from growing dissatisfaction with the previous system of expenditure control, which peaked in 1974-75 when spending apparently rose by L 4.9 billion more than could be accounted for by published spending plans or announced changes to those plans.<sup>32</sup> Initiated by senior civil servants at the Treasury, the new system was tried out on public sector building programs in 1974-76 and introduced more broadly for the fiscal year 1976-77. It was accompanied by several additional measures designed to strengthen the hand of the Treasury against spending Ministers; and it facilitated deep cuts in the projected rate of spending in subsequent years.

A third case of second-order learning occurred in 1981-85, as the Thatcher Government gave up its attempts to implement a system of monetary base control (MBC) and gradually moved away from a monetary policy oriented primarily to rigid targets for the rate of growth of LM3. The Government enshrined targets for LM3 in the Medium Term Financial Strategy (MTFS) announced with the March 1980 budget and, shortly thereafter, directed its officials to devise a system for monetary base control; but, by 1985, the Government had all but abandoned strict targets for LM3 and any plan for MBC. Once again, officials played the key role in persuading Ministers that a change in their plans was necessary.<sup>34</sup> Officials at the Bank of England resolutely resisted MBC on the ground that under such a system they would lose control of short-term interest rates, and, as successively attempts to control the rate of growth of LM3 failed, both Bank and Treasury officials persuaded the Chancellor to turn to other indicators of monetary stringency and eventually incorporate exchange-rate movements into his calculations. By 1985, a multitude of measures were utilized to assess monetary growth, the central targets were largely notional, the practice of 'overfunding' the public

sector deficit once employed to control LM3 had been terminated, and monetary policy was guided for the most part by ad hoc considerations.<sup>35</sup>

Although only a brief discussion of these cases has been possible here, what is most striking about all of them is that they accord remarkably well with the image of policy learning prevalent among theorists of the state. In each case, changes were made to policy instruments primarily to dissatisfaction with past policy rather than in response to economic events alone. Competition and Credit Control was inspired by the growing unworkability of existing controls on credit and their distorting effects on banking competition rather than by the underlying course of monetary growth. The inflationary conditions of 1975-76 made some reduction in public expenditure desirable, but the new system of cash limits was a direct response to the apparent failure of the existing system of public expenditure planning. Likewise, modifications made to the system of monetary control in 1981-85 were motivated primarily by dissatisfaction with the operation of the existing system.

Similarly, officials, rather than politicians, played the key role in each instance of policy learning. CCC was initiated by Bank officials on the basis of studies begun before the Heath Government took office and its presentation was simply tailored to fit the prevailing Conservative platform. The system of cash limits was also devised by officials before the Labour Government came to office and presented to the Chancellor as a solution when appropriate problems arose, much as a 'garbage can' theory of decision-making would suggest.<sup>36</sup> The resistance of the Prime Minister delayed the move away from monetary targets in the 1980s, but once again those pushing more strongly for a change were the civil servants who had to operate the policy.

Each of these are also cases in which the state acted relatively autonomously. The system of cash limits was never really the object of pressure from outside actors: what pressure came from the financial press was itself largely engineered by Whitehall.<sup>37</sup> In the case of CCC, the clearing banks had been seeking relief from quantitative controls for some time, but the Bank moved toward a new system only when its own calculations indicated (albeit incorrectly) that a stable demand for money existed. Similarly, there had been vociferous critics of monetary targets since their inception in 1976, but the

Thatcher Government moved away from them only when its own policy experts concluded they were unworkable.

In the light of these cases, we might well conclude that the prevailing image of policy learning is correct in all its essentials. However, the most important changes in policy over this period were those associated with third-order learning; and, before reaching any conclusions, we should examine this process as well.

### THIRD-ORDER LEARNING

The most significant change in British macroeconomic policy during the 1970-89 period is undoubtedly that associated with the movement from a Keynesian mode of policy-making to a mode associated with monetarist economic theory. This was an instance of third-order learning in which the goals, instruments, and instrument settings of policy changed in tandem. Moreover, the associated changes in policy discourse were radical enough to be described as a shift in policy paradigms.

The Keynesians who had managed British policy since the war and the monetarists who took over policy after 1979 had fundamentally different views of how the economy worked. The basic paradigm guiding policy changed. Whereas Keynesians had seen the private economy as fundamentally unstable and in need of intermittent fiscal adjustment, monetarists saw the private economy as stable and discretionary policy as an impediment to efficient economic performance. Whereas Keynesian policy-makers had attributed fluctuations in economic output and inflation to the cycles of the real economy or excessive wage and price pressure, the monetarist policy-makers who came to power in 1979 took the view that fluctuations in output and inflation were caused primarily by excessive changes in the rate of growth of the money supply. And if previous governments had accepted responsibility for reducing the rate of unemployment ever since the famous 1944 White Paper on that subject, the Thatcher government believed that the jobless were not the responsibility of the state: unemployment would converge to a 'natural rate' fixed by conditions in the labor market rather than the macroeconomic stance.<sup>38</sup>

In line with these differences in view, the hierarchy of goals and instruments used to manage the economy changed dramatically after 1979. Inflation replaced unemployment as the preeminent concern of policy-makers. Active fiscal policy to moderate the fluctuations in the economy was rejected in favor of the paired goals of achieving balanced budgets and direct tax reductions. Monetary policy assumed new importance as an instrument of policy, and it was reoriented toward fixed targets for the rate of monetary growth. Regulatory instruments, such as incomes policies, exchange controls, and quantitative limits on bank lending were eliminated.<sup>39</sup>

How did such a paradigm shift come about? The relevant events can be described here in only the briefest of terms, but they suggest that the process of third-order learning was quite different from those of first- and second-order learning. Broadly speaking, the shift from a Keynesian to monetarist paradigm was marked by much greater disruption and a wider political struggle between the proponents of the two approaches. Indeed, the process displayed many of the features that the Kuhnian model elaborated above would lead us to expect.

After thirty years in which British policy had been guided by a relatively stable Keynesian paradigm, change was initiated by the appearance of a series of anomalous economic events during the 1970s. These ‘anomalies’, which the prevailing Keynesian model could neither fully anticipate nor explain, led in the first instance to a series of mistaken forecasts and policy failures.

Only some of these difficulties can be enumerated here.<sup>40</sup> On serious underestimates of the rate of inflation, the Government fueled an inflationary spiral with cost-of-living agreements in 1973. Unable to interpret the impact of the 1974 oil price increases on British business, the Treasury endorsed corporate tax increases in March of that year, but these had to be off-set by emergency relief later that fall. I Underestimates of the relative price effect on public sector consumption led to serious miscalculations of public spending and the PSBR in 1974-75. A misjudged attempt to nudge sterling down on the foreign exchanges in the spring of 1976 precipitated a run on the pound that ended with recourse to the IMF and severe spending cuts in 1977. These were widely perceived as significant policy failures.

The authorities reacted with a series of policy experiments that were basically ad hoc attempts to recover control over the economy by stretching traditional Keynesian practice. The most prominent was a series of incomes policies implemented in 1972-73 and 1975-77. But incomes policies impaired one of the Keynesian paradigm's greatest sources of appeal-its ability to promise effective economic management without intervening directly in the affairs of individual economic actors.<sup>41</sup> Several experiments with monetary targets followed in 1976-77 but, by this time, Keynesian doctrine was losing its basic coherence, and the faith of politicians, officials, and the public in the efficacy of Keynesianism had been deeply eroded. The Prime Minister himself told the 1976 Labour Party conference that: "We used to think you could just spend your way out of the recession and increase employment by cutting taxes and boosting spending. I tell you in all candour that option no longer exists...".<sup>42</sup> The Keynesian paradigm had been stretched to the point of breaking.

In the face of these developments, the locus of authority over macroeconomic issues began to shift. The Treasury lost its virtual monopoly of authority over such matters. Backbench M.P.s forced the Government to release details of the Treasury model to the general public. The Prime Minister himself overruled the Treasury in favor of the Bank of England on several key issues in 1977; and even the Chancellor of the Exchequer lost faith in his own officials: an unusual number of them left the Treasury shortly after 1976.<sup>43</sup>

This general fragmentation of authority over policy was accompanied by an extraordinary intensification of debate about economic issues in the wider political arena. What we might call the outside 'marketplace in economic ideas' expanded dramatically in the 1975-79 period. New research institutes devoted to economic affairs were created; financial institutions expanded their economic research departments; and the already-high volume of economic commentary in the press grew larger and even more sophisticated. Macroeconomic management became the subject of a society-wide debate.<sup>44</sup>

At this point, the debate also spilled over into the political arena, where it became the object of electoral competition. Seeking a weapon with which to attack the

Government, the new leader of the Conservative party, Margaret Thatcher, took up a competing economic paradigm based on monetarist doctrine. With this step, political, as opposed to purely economic, criteria became an important factor affecting the relative success of these competing policy paradigms. Monetarism appeared as the principal challenger to the Keynesian paradigm, in part because it was a coherent and highly-articulated doctrine with substantial support among American economists. By contrast, other rivals, like the doctrines promulgated by the Cambridge Economic Policy Group, had less support in the economic profession and were not full-fledged theoretical alternatives to Keynesianism. However, monetarism still had very little support from British economists. The attention that it received from politicians and the media stemmed largely from its political appeal.

On the one hand, some features of monetarist thought fit especially well with the longstanding beliefs of many Conservatives. The monetarist critique of fiscal activism as well as its arguments for lowering public spending and the public sector deficit provided a new rationale for longstanding conservative arguments that the role of the state in the economy should be reduced. The monetarist idea that the 'natural rate' of unemployment could be decreased only by reducing the power of the trade unions also fit well with the Conservative's growing antipathy towards the unions, recently reinforced by Heath's 1974 electoral defeat at the hands of the miners.<sup>45</sup>

On the other hand, monetarism could also be presented in terms that had broader public appeal as well. By the end of the 1970s, a decade of torturous negotiations over incomes policies had rendered both the trade unions and neo-corporatist arrangements highly unpopular. The government seemed impotent in the simple but appealing prescription for all of these problems. Its advocates argued that the government could discipline the unions and eliminate inflation, the most serious economic problem of the 1970s, simply by adhering to a strict target for the rate of growth of the money supply. In the face of such a target, the unions would have to reduce their wage demands in order to avoid unemployment. In short, monetarism was presented as a doctrine that could restore the authority of the government as well as resolve Britain's economic problems.<sup>46</sup>

Once the monetarist paradigm was taken up by the Conservatives, its fate came to depend heavily on their electoral fortunes; and these were conditioned by a wide range of factors. The policy failures associated with the stretching of the Keynesian paradigm, culminating in the collapse of incomes policy during the winter of 1979, probably contributed more to the Conservative's electoral victory that May than did the positive appeal of monetarism.<sup>47</sup> When policy paradigms become the object of open political contestation, the outcome depends on the ability of each side to mobilize a sufficient electoral coalition behind its alternative in the political arena.

Once in office, Thatcher played a key role in institutionalizing the new policy paradigm. She packed the influential economic committee of Cabinet with its supporters, appointed an outside monetarist to be Chief Economic Advisor at the Treasury; and, in conjunction with the Chancellor and a few personal advisors, she virtually dictated the outlines of macroeconomic policy for several years. The locus of authority over policy-making in this period shifted dramatically towards the Prime Minister. Over time, an aggressive policy of promoting civil servants who were highly pliable or sympathetic to monetarist views implanted the new paradigm even more firmly. By 1982, the terms of policy discourse had shifted decisively toward monetarism.

How well does this case of third-order learning fit the image of policy learning used by contemporary analysts of the state? In one respect, it fits well. The rise of monetarism was certainly a response to dissatisfaction with past policy rather than simply to economic events per se. Support for monetarism grew in reaction to the perceived inadequacies and unintended consequences of Keynesianism. In this sense, the movement toward monetarism deserves to be seen as a case of social learning. For economic policy-makers, the 1970s were a decade of great uncertainty; and, more than anything else, the meandering efforts of the British resembled a collective effort at puzzling out new solutions to highly perplexing economic problems.

In other respects, however, this process does not fit the prevailing model of policy learning. It was not civil servants or policy experts, but politicians, who played the preeminent role in this process. The vast majority of government officials were virtually

as Keynesian in 1979 as they had been in 1970. The monetarist assault was led by key political figures, like Margaret Thatcher and Sir Keith Joseph, who persuaded others of the advantages of their cause and virtually forced the Whitehall machine to alter its modes of macroeconomic policy-making.

Moreover, this process of third-order learning did not take place primarily within the confines of the state itself. It began with a shift in the locus of authority away from the Treasury toward a growing marketplace in economic ideas outside the state. The ensuing struggle to replace one policy paradigm with another was a society-wide affair, mediated by the press, deeply imbricated with electoral competition, and fought in the public arena.

## CONCLUSION

This case has important implications for contemporary theories of the state. On the one hand, it suggests that the concept of policy-making as social learning is a very useful way of extending the positive account that state theorists and others might give of the policy process. On the other hand, by disaggregating the process of policy learning into three sub-types, according to the magnitude of the policy changes involved, we can see more variation in the learning process than has hitherto been recognized.

The cases of first- and second-order learning examined here correspond quite closely to the image of policy learning presented by Hecló and many theorists of the state. Changes in policy at time-1 were clearly a response to policy at time-0 and its consequences. Experts in the public employ were primarily responsible for policy innovation; and the learning process, as a whole, took place primarily inside the state itself.

However, the case of third-order learning examined here, by which Britain moved from Keynesian to monetarist modes of policy-making, was quite different. Policy at time-1 was certainly a response to the consequences of policy at time-0; but politicians, rather than experts, played a preeminent role and the process spilled well beyond the boundaries of the state to involve the media, outside interests, and contending political

parties. Policy changed not as a result of autonomous action by the state, but in response to an evolving societal debate closely connected to electoral competition.

These findings speak to the important divide between state-centric and state structuralist theories. They call into question the tendency of state-centric theories to associate policy learning with the autonomy of the state. Only some kinds of policy learning seem to take place inside the state itself. The process of third-order learning confirm the view of state structuralists that forces outside the state in the wider political arena can also have an important impact on the direction of policy.

In some respects, this pulls us back toward pluralist conceptions of the political system. It certainly suggests that the stark dichotomy between state and society that underlies state-centric theory should be revised in order to make room for a more expansive conception of the political system, understood as the complex of political parties and interest intermediaries that stand at the intersection between the state and society in democratic polities. Those who seek to 'bring the state back in' to political analysis should not simultaneously read the party system out of their analyses.<sup>50</sup> In particular, it suggests that the past actions or policy legacies of the state have an important impact on the tenor of electoral competition and that policy is not always a response to societal pressure, as the instances of first- and second-order learning examined here reveal.<sup>51</sup>

As it should, this study of policy learning draws our attention again to the role of ideas in politics. Armed with the conception of policy paradigms that is developed here, we can push forward our understanding of state-society relations in a number of ways. In particular, we can see that parties and interest groups are not the only channels that link the state to society. We need to view the transmission belts between the state and society in broader terms to include the web of ideas that informs policy. Even in cases where the impact of parties and interest groups on policy seems negligible, we cannot conclude that the state acts autonomously from society without also examining the flow of ideas between the two spheres. Policy is often deeply influenced by the terms of policy discourse, and these are generally constructed out of a dialogue in which

politicians, officials, the media, organized interests, and experts in the outside marketplace of policy ideas are all involved.<sup>52</sup>

Similarly, armed with the concept of policy paradigms, we can better understand the conditions that affect the autonomy of the state. Many analysts have argued that the institutional structure of the state affects its capacity to act independently of societal forces. However, this leaves us with the puzzle of how to explain why the same state, with a relatively unchanging structure, often seems to be more autonomous from societal pressures at some times than at others. One answer may be that the autonomy of the state can also depend, at least in part, on the presence of a coherent policy paradigm.<sup>53</sup> In the case of third-order learning examined here, when the Keynesian paradigm was collapsing, the locus of authority shifted away from the Treasury and policy became especially susceptible to external influence. By contrast, the state displayed considerable autonomy from societal pressure in the instances of first- and second-order learning, which occurred when the relevant policy paradigm was still relatively intact.

Policy-makers are in a much stronger position to resist pressure from societal interests when they are armed with a coherent policy paradigm. The paradigm often dictates an optimal course for policy, and, even where it does not, it provides a set of criteria for resisting some societal demands and accepting others. Conversely, in the absence of such a paradigm, policy-makers may be much more vulnerable to outside pressure.

This concept can take us some distance towards an explanation for the most striking difference between the 1970-74 Heath and 1979-83 Thatcher governments. Both were Conservative administrations, elected on platforms that promised to reduce inflation, cut taxes, and reduce the role of the state in the economy. However, when rates of unemployment began to rise and recession loomed, the Heath government made a famous U-turn back toward reflation and interventionist policies, whereas the Thatcher government held fast to its deflationary course. What explains the difference? In part, of course, Thatcher learned from Heath's experience, suggesting once again that policy is heavily influenced by past policy experiences. But, whereas the platform on which Heath was elected was a jerrybuilt structure with no alternative economic underpinning,

Thatcher's was based on a much more fully-elaborated monetarist paradigm. Thus, when recession loomed and both governments faced intense demands from businessmen and trade unionists alike for reflation, Heath had nothing to fall back on, other than the Keynesian paradigm which itself dictated reflation. Thatcher, by contrast, was able to appeal to the monetarist paradigm for authoritative arguments with which to resist mounting pressure for reflation.<sup>54</sup> The presence of a coherent policy paradigm underpinning the government's economic strategy greatly enhanced the autonomy of the Thatcherite state.

Although further research is needed to establish the generality of these findings, they are likely to apply to other nations and other fields of policy-making as well. In other domains where policy is technically complex, policy paradigms are especially likely to be an important feature of policy-making; and there is some evidence that they affect the course of policy even in less complex fields. Jenson has already applied a similar concept to the case of social policy in the United States and France; and Marris takes an analogous approach to community planning in Britain.<sup>55</sup>

Similarly, there are likely to be several distinct kinds of policy learning in other fields of policy as well; and these may well vary according to the magnitude of the policy changes involved. The typology developed here is meant to be suggestive, rather than exhaustive, of the different types of policy learning that might be found. However, the insight at the heart of the concept of policy learning—that policy is usually formulated in response to past policy—is an important one that opens up many lines of enquiry. We need to know much more about why some policy experiences become catalysts for change while others are ignored, about whether policy responds more strongly to the successes or failures of past policy, and about how the interpretation of policy figures in struggles for power. This account suggests that critical sequences of experimentation, policy failure, and shifts in the locus of authority should play an important role in the dynamics of policy-making across many fields. Only with more research into such sequences and more studies of the evolution of policy over time will we be able to understand these dynamics fully.<sup>56</sup>

For the time being, however, these findings suggest that those who seek to use the concept of social learning to underpin theories of the state should be cautious about how they deploy the concept. It is important to recognize that there may be different kinds of policy learning and all do not necessarily confirm the autonomy of the state. Hecló's influential account of social learning needs to be nuanced in two respects. Policy learning is not simply a matter for expert middlemen and civil servants; it can be a society-wide affair in which politicians and the public struggle to define and choose among competing moral visions of the good society.<sup>57</sup> In such cases, the rigid distinction between 'politics as learning' and 'politics as a struggle for power' breaks down and the two processes become intertwined: the competition for political power characteristic of most polities can itself be a vehicle for social learning. Out of this interaction between ideas and power, contemporary politics is made.

Notes.-

1. For reviews see: Stephen Krasner, "Approaches to the State," *Comparative Politics*, 16 (1984), 223-46; Martin Carnoy, *The State and Political Theory* (Princeton: Princeton University Press, 1984); and Peter Evans *et al.*, eds., *Bringing the State Back In* (New York: Cambridge University Press, 1985).
2. Stephen Krasner, *Defending the National Interest* (Princeton: Princeton University Press, 1978), p. 26.
3. For dissenting views, see Gabriel Almond, "The Return to the State," *American Political Science Review*, 82 (1988), 853-74 and the several responses that follow his article.
4. Cf. Krasner, *Defending the National Interest*.
5. Nordlinger, *On the Autonomy of the Democratic State*, 15; Graham Allison, *The Essence of Decision* (Boston: Little Brown, 1971), 162-81.
6. Margaret Weir and Theda Skocpol, "State Structures and the Possibilities for 'Keynesian' Responses to the Great Depression in Sweden, Britain and the United States," in Peter Evans *et al.*, *Bringing the State Back In*, 107-168.
7. Cf. Peter Gourevitch, "The Second Image Reversed: The International Sources of Domestic Politics," *International Organization*, 32 (Autumn 1978).
8. See Karl Deutsch, *The Nerves of Government* (New York: Free Press, 1963); Chris Argyris and Donald Schon, *Organizational Learning* (Reading, Ma.: Addison-Wesley, 1978); Richard Rose, "Lesson Drawing Across Time and Space" Working Paper of the Centre for the Study of Public Policy, University of Strathclyde, February 1989; and for representative works in the area of foreign policy: Lloyd Etheredge, "Governmental Learning: An Overview," in S. Long, *Handbook of Political Behavior*, 2 (New York: Plenum Press, 1981), 73-161; Etheredge, *Can Governments Learn?* (New York: Pergamon, 1985); Joseph Nye, "Nuclear Learning and U.S.-Soviet Security Regimes," *International Organization*, 41 (1987), 371-402; John Steinbrunner, *The Cybernetic Theory of Decision* (Princeton: Princeton University Press, 1974); Ernst B. Haas, *When Knowledge is Power* (Berkeley: University of California Press, forthcoming); and Emanuel Adler, "Cognitive Evolution," in Emanuel Adler and Beverly Crawford, eds., *Progress in Postwar International Relations* (forthcoming).
9. Hugh Hecló, *Modern Social Politics in Britain and Sweden* (New Haven: Yale University Press, 1974), 305-6.
10. Theda Skocpol, "Bringing the State Back in: Strategies of Analysis in current Research," in Evans *et al.*, *Bringing the State Back In*, 12; Paul Sacks, "State Structure and the Asymmetrical Society," *Comparative Politics*, (1980), 358.
11. Representative works include: Krasner, *Defending the National Interest*; Nordlinger, *On the Autonomy of the Democratic State*; Sacks, "State Structure and the Asymmetrical Society".

12. For representative works in this vein, see: Peter Katzenstein, *Between Power and Plenty* (Madison: University of Wisconsin Press, 1978), conclusion; Theda Skocpol and John Ikenberry, "The Political Formation of the American Welfare State in Historical and comparative Perspective," *Comparative Social Research*, 6 (1983); Weir and Skocpol, "State Structures and the Possibilities for 'Keynesian' Responses".

13. Cf. David Braybrooke and Charles Lindblom, *A Strategy of Decision* (Glencoe, Ill.: Free Press, 1963) and Stephen Krasner, "Approaches to the State".

14. Heclo, *Modern Social Politics*, 312.

15. Economic policy-making in Britain is one of the cases examined in: Weir and Skocpol, "State Structures and the Possibilities for 'Keynesian' Responses" as well as Sacks, "State Structure and the Asymmetrical Society"; and, of course, Britain provided one of the case in which Heclo developed his concept of social learning.

16. Sacks, p. 356.

17. Weir and Skocpol, p. 119; cf. Heclo, p. 315.

18. Heclo, p. 308 et passim; Weir and Skocpol, pp. 138 et passim.

19. Heclo, p. 318; Sacks, p. 356. Although I have emphasized the points on which Heclo and theorists of the state seem to agree, there are some issues on which their views diverge. For instance, is policy learning driven primarily by past failures or successes? Heclo (p. 303) notes that policy "has most frequently evolved as a corrective less to social conditions as such and more to the perceived failings of past policy", while Weir and Skocpol (p. 120) put more emphasis on the way in which policy builds on its past successes. Similarly, is the nature of policy learning seriously affected by the institutional structure of the state or not? Weir and Skocpol (p. 126) argue that it is, while Heclo (p. 308) tends to stress the role of individuals in the learning process; on this see also Hugh Heclo, "Policy Dynamics," in Richard Rose, ed., *The Dynamics of Public Policy* (Beverly Hills: Sage, 1976), p. 76.

20. Note that this does not necessarily mean that policy becomes better or more efficient as a result of learning. Just as a child can learn bad habits, governments, too, may learn the 'wrong' lessons from a given experience. Although learning usually improves the capacity of a state to attain its policy goals, it need not always do so; and a government's overall goals may also be open to question on other grounds. The main point is that learning reflects a deliberate attempt to adjust policy in the light of past experience and policy-relevant knowledge.

21. It should be apparent that this classification reflects a lexical ordering: first-order represents a change in the simplest of policy variables; second-order learning changes both instruments and their settings; and third-order learning entails a change in all three sets of variables. We can also imagine a process of 'fourth-order learning' similar to the one that Argyris and Schon (pp. 18-26) call 'deutero-learning', in which policy-makers learn how to learn. However, a full discussion of that topic is beyond the scope of this study.

22. Charles Anderson, "The Logic of Public Problems: Evaluation in Comparative Policy Research," in Douglas Ashford, ed., *Comparing Public Policies* (Beverly Hills: Sage, 1978), p. 23. For similar formulations, see Jane Jenson, "Struggling for Identity: the Women's Movement and the State in Western Europe," *West European Politics*, 8 (1985), 5-18; Douglas Ashford, *The Emergence of the Welfare States* (Oxford: Basil Blackwell, 1986); and Donald Schon, "Generative Metaphor: A Perspective on Problem-Solving in Social Policy," in Andrew Ortony, ed., *Metaphor and Thought* (Cambridge: Cambridge University Press, 1977), 254-83.

23. See: Samuel Brittan, *Steering the Economy* (Harmondsworth: Penguin, 1970); Paul Mosely, *The Making of Economic Policy* (Brighton: Wheatsheaf, 1984); and F. T. Blackaby, ed., *British Economic Policy 1960-74* (Cambridge: Cambridge University Press, 1979) for works that illustrate this point.

24. Thomas Kuhn, *The Structure of Scientific Revolutions* (Chicago: University of Chicago Press, 1970). Of course, Kuhn's arguments have generated considerable controversy among philosophers of science, but they remain highly suggestive and potentially even more applicable to the social sciences that commonly influence policy, cf. Imre Lakatos and Alan Musgrave, eds., *Criticism and the Growth of Knowledge* (Cambridge: Cambridge University Press, 1970).

25. Cf. Charles Lindblom, *The Policy-Making Process* (Englewood Cliffs: Prentice Hall, 1968); Aaron Wildavsky, *The New Politics of the Budgetary Process* (Boston: Little Brown, 1968?).

26. In this respect, many policy paradigms resemble those found in natural science. For an argument that elaborates and establishes this point more fully with regard to the Keynesian and monetarist paradigms in economics, see Peter A. Hall, *The Political Dimensions of Economic Management* (Ann Arbor: University Microfilms, 1982) ch. 2.

27. For a much more extended discussion of these cases, see Peter A Hall, *The Political Dimensions of Economic Management* (Ann Arbor: University Microfilms, 1982).

28. See Paul Mosely, *The Making of Economic Policy* (Brighton: Wheatsheaf, 1984), ch. 4 et passim; and Hugo Young and Ann Sloman, *But Chancellor: An Enquiry into the Treasury* (London: British Broadcasting Corporation, 1984), pp. 65-83.

29. William Keegan and Rupert Pennant-Rae, *Who Runs the Economy?* (London: Temple Smith, 1979); Hall, *The Political Dimensions of Economic Management*; Peter Browning, *The Treasury and Economic Policy 1964-1985* (London: Longman, 1986), p. 331 et passim.

30. See: Young and Sloman, *Bui, Chancellor*, pp. 75-77; Hall, *The Political Dimensions of Economic Management*, pp. 657-74.

31. For detailed accounts of this episode, see: K. K. F. Zawadzki, *Competition and Credit Control* (Oxford: Blackwell, 1981); Michael Moran, *The Politics of Banking* (London: Macmillan, 1986), ch. 3; David Gowland, *Monetary Policy and Credit Control* (London: Croom Helm, 1978); and Hall, *The Political Dimensions of Economic Management*, ch. 3.

32. See Expenditure Committee, House of Commons, *The Financing of Public Expenditure*. First Report 1975-76; HC-69. (London: HMSO, 1976).
33. Leo Pliatzky, *Getting and Spending* (Oxford: Blackwell, 1982); Hugh Hecllo and Aaron Wildawsky, *The Private Government of Public Money*. 2nd ed. (London: Macmillan, 1981), introduction.
34. See William Keegan, *Mrs. Thatcher's Economic Experiment* (Harmondsworth: Penguin, 1984), ch. 5.
35. See Browning, *The Treasury and Economic Policy*; and David Smith, *The Rise and Fall of Monetarism* (Harmondsworth: Penguin, 1987), ch. 8.
36. Cf. M. Cohen, J. March, and J. Olsen, "A Garbage Can Model of Organizational Choice," *Administrative Science Quarterly*, 17 (1972), 1-25.
37. Pliatzky, *Getting and Spending*, p. 139.
38. For more extended discussions of the differences between the Keynesian and monetarist paradigms, see: Alex Chrystal, *Controversies in Macroeconomics* (London: Philip Allen, 1979); Keith Cuthbertson, *Macroeconomic Policy* (London: Macmillan, 1979); Hall, *The Political Dimensions of Economic Management*, ch. 1; and Sir Keith Joseph, *Reversing the Trend* (London: Barry Rose, 1975).
39. See: James Alt, "Old Wine in New Bottles: Thatcher's Conservative Economic Policies." In Barry Cooper, Alan Kornberg and William Mishler, eds., *The Resurgence of Conservatism in the Anglo-American Democracies* (Durham: Duke University Press, 1987); and Wilhelm Buitter and Marcus Miller, "The Thatcher Experiment: The First Two Years," *Brookings Papers on Economic Activity*, 2 (1980), 315-379.
40. For more detailed accounts, see: Hall, *The Political Dimensions of Economic Management*; Jock Bruce-Gardyne, *Whatever Happened to the Quiet Revolution?* (London: Charles Knight, 1974); Keegan and Pennant-Rae, *Who Runs the Economy?*; Martin Holmes, *Political Pressure and Economic Policy 1970-74* (London: Butterworth, 1982).
41. See: Robert Skidelsky, "The Decline of Keynesian Politics," in Colin Crouch, ed., *State and Economy in Contemporary Capitalism* (London: Croom Helm, 1979), 55-86; and Anthony Crosland, *The Future of Socialism* (London: Strauss-Farrar, 1956).
42. Cited in Keegan and Pennant-Rae, *Who Runs the Economy?*, p. 101 ; cf. Joel Barnett, *Inside the Treasury* (London: Andre Deutsch, 1982); and David Coates, *Labour in Power?* (London: Longman, 1980), ch. 1. The policy experiments initiated in this period have led some analysts to suggest that monetarist policy really began under the 1974-79 Labour government. But the conception of policy paradigms presented here allows us to distinguish the situation in 1976-79 from that after 1979. The Labour government's moves toward informal monetary targets and greater emphasis on the PSBR were simply ad hoc adjustments to the Keynesian paradigm. The underlying terms of policy discourse had not yet changed: Labour policy-makers still believed in their responsibility for unemployment, the usefulness of incomes policies, and fiscal activism. They were at best 'unbelieving monetarists'; the true believers came to power only in 1979 when Thatcher was elected to office.

43. See especially, Keegan and Pennant-Rae, *Who Runs the Economy?*
44. See Hall, *The Political Dimensions of Economic Management*, ch. 6.
45. See Robert Behrens, *The Conservative Party from Heath to Thatcher* (London: Saxon House, 1980) ch. 5; and Andrew Gamble, "The Free Economy and the Strong State," in Ralph Miliband and John Saville, eds., *The Socialist Register 1979* (London: Merlin, 1979), 1-25.
46. See especially Joseph, *Reversing the Trend*.
47. See Ivor Crewe, "Why the Conservatives Won," in H. R. Penniman, ed., *Britain at the Polls, 1979* (Washington: American Enterprise Institute, 1981), 263-306.
48. For the classic elaboration of this argument, see Peter Gourevitch, *Politics in Hard Times* (Ithaca: Cornell University Press, 1986).
49. See Keegan, *Mrs. Thatcher's Economic Experiment*, and Jock Bruce-Gardyne, *Mrs. Thatcher's First Administration* (London: Macmillan, 1984).
50. The most sophisticated theorists of the state have already begun to explore the relationship between the institutional structure of the state and the party system. For interesting examples of such analyses, see: Ann S. Orloff and Theda Skocpol, "Why Not Equal Protection? Explaining the Politics of Public Social Spending in Britain, 1900-1911, and the United States, 1880s-1920," *American Sociological Review*, 49 (1984), 726-50; and Martin Shefter, "Party and Patronage: Germany, England, and Italy," *Politics and Society*, 7 (1977), 404-51.
51. Since this is not a cross-national comparison, it is difficult to evaluate the additional argument of state theorists that the structure of the state affects the direction of policy in such cases. However, for a cross-national comparison that takes up this issue in the context of a similar case, see Peter A. Hall, "Conclusion: The Politics of Keynesian Ideas," in Hall, ed., *The Political Power of Economic Ideas: Keynesianism across Nations* (Princeton: Princeton University Press, 1989), 360-391.
52. In this context, the literature on policy communities and issue networks can be read as an attempt to specify which groups are most closely involved in constructing the terms of policy discourse in any given field of policy. For representative works, see: R. A. W. Rhodes, "Power Dependence, Policy Communities and Inter-Governmental Networks," *Public Administration Bulletin*, 49 (1985), 4-31; Hugh Hecl, "Issue Networks and the Executive Establishment," in Anthony King, ed., *The New American Political System* (Washington: American Enterprise Institute, 1978); Katzenstein, *Between Power and Plenty*; and the recent issue of *Governance* 2, 1 (1989).
53. For a different argument to the effect that the state is more autonomous, from business pressure at least, during periods of depression, war and reconstruction, see: Fred Block, "The Ruling Class Does Not Rule: Notes on the Marxist Theory of the State," *Socialist Review* 33, (May-June 1977), 6-28.
54. Cf. Jock Bruce-Gardyne, *Whatever Happened to the Quiet Revolution* (London: Charles Knight, 1974) and Bruce-Gardyne, *Mrs. Thatcher's First Administration*.

55. See Jane Jenson, "Paradigms and Political Discourse: Labour and Social Policy in the USA and France before 1914," *Canadian Journal of Sociology and Anthropology* (1989); and Peter Marris, *Community Planning and Conceptions of Change* (London: Routledge and Kegan Paul, 1982).

56. The evolution of policy over time has not been studied as fully as it might. For one collection addressed to this problem, see: Richard Rose, ed., *The Dynamics of Public Policy* (London: Sage, 1976).

57. Compare the formulation in Heckscher, *Modern Social Politics* with that in Samuel H. Beer, "In Search of a New Public Philosophy," in King, ed., *The New American Political System*.